

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**



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Executive Director

BY ELECTRONIC MAIL

April 24, 2018

The Honorable Ricardo A. Rosselló Nevares
Governor of Puerto Rico
La Fortaleza
PO Box 9020082
San Juan, PR 00902-0082

The Honorable Thomas Rivera Schatz
President of the Senate of Puerto Rico

The Honorable Carlos J. Méndez Núñez
Speaker of the House of Representatives of Puerto Rico

Dear Governor Rosselló Nevares, Senator Rivera Schatz, and Speaker Méndez Núñez:

By this letter, pursuant to PROMESA § 202(a), the Financial Oversight and Management Board for Puerto Rico (the “FOMB”) sets the following deadlines for subsequent steps in route to the adoption of the fiscal year 2019 budget for the Commonwealth:

1. May 4, 2018: Pursuant to PROMESA § 202(c), Governor to provide proposed budgets and supporting details including a detailed reconciliation between budget and Fiscal Plan, as well as budget to actual templates, including key performance indicators, for reporting post-certification. The Government is expected to ensure all Fiscal Plan attributes, including reserves, revenue and expenses measures are incorporated into Milestone 4 deliverables. Note also that total expenditures should be consistent with the certified Fiscal Plan submitted and approved.
2. On or about May 10, 2018: Pursuant to PROMESA § 202(c)(1)(A) and 202(c)(1)(B), FOMB to approve Governor’s proposed budget or to notify Governor of violations and provide descriptions of any necessary corrective action. (i) If FOMB approved the proposed budget, FOMB shall submit the budget to the Legislature. (ii) If FOMB notified

April 24, 2018

Page | 2 of 8

the Governor of violations, the Governor may submit a revised budget to FOMB on or before May 15, 2018.

3. May 22, 2018: Pursuant to PROMESA § 202(c)(2), (i) If the Governor timely submitted a revised budget to FOMB, FOMB may approve the Governor's revised budget or submit its own compliant budget to the Governor and the Legislature. (ii) If the Governor fails to submit a revised compliant budget, FOMB shall develop and submit to the Governor and the Legislature a revised compliant budget.
4. June 18, 2018: Pursuant to PROMESA § 202(d)(1), the Legislature must submit its adopted budget to FOMB on or before this date.
5. On or before June 22, 2018: Pursuant to PROMESA § 202(d)(1)(A) and 202(d)(1)(B), if the Legislature timely submitted its adopted budget to FOMB, the FOMB shall approve it or notify the Legislature of its violations and provide descriptions of any necessary corrective action.
6. June 26, 2018: Pursuant to PROMESA § 202(d)(2), if FOMB notified the Legislature of violations and corrective actions, the Legislature shall submit a revised budget to FOMB on or before June 26, 2018.
7. June 29, 2018: (i) Pursuant to PROMESA § 202(e), if FOMB approved the Legislature's adopted budget, FOMB shall issue a compliance certification to the Governor and Legislature for such budget. (ii) If the Legislature submits a revised, compliant budget to FOMB, FOMB shall approve it and issue a compliance certification to the Governor and Legislature. (iii) If the Legislature fails to submit a revised, compliant budget to FOMB, FOMB shall submit its own compliant budget to the Governor and Legislature and that budget, pursuant to PROMESA § 202(e)(3), shall be (a) deemed to be approved by the Governor and Legislature, (b) deemed to be subject to a compliance certification issued by the FOMB to the Governor and Legislature, and (c) in full force and effect beginning the first day of the fiscal year.
8. Any time through June 29, 2018: Pursuant to PROMESA § 202(f), if the Governor, Legislature, and FOMB each certify that a jointly developed budget reflects a consensus among them, then such budget shall serve as the budget for the Commonwealth for fiscal year 2019.

Finally, pursuant to PROMESA § 202(b), FOMB provides the attached forecast of revenues for fiscal year 2019 for use by the Governor in developing the budget, including the following:

Appendix A – Consolidated revenue (including detailed General Fund Revenue by type)

Appendix B – Other funds revenues by agency

Appendix C – Federal funds revenue

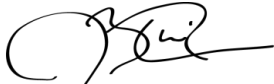
April 24, 2018

Page | 3 of 8

All submissions required herein shall be sent to the following email address:
CWBudget@promesa.gov.

We look forward to working with you throughout the budget approval process.

Sincerely,



José B. Carrión
Chair

Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

CC: Christian Sobrino Vega
Natalie A. Jaresko
Jose Marrero
Gerardo Portela

Appendix A: Consolidated Revenue

| Fiscal Year Ending June 30 (\$ in Millions) | | | | |
|---|-----------------|------------------|--------------------|---|
| <u>General Fund Revenues</u> | <u>FY19 FP</u> | <u>Adj.</u> | <u>FY19 Budget</u> | |
| Individual Income Taxes | \$1,921 | (219) | \$1,702 | A |
| Corporate Income Taxes | 1,440 | 166 | 1,606 | B |
| Non-Resident Withholdings | 539 | -- | 539 | |
| Alcoholic Beverage Tax | 271 | -- | 271 | |
| Cigarettes Excise Tax | 134 | 49 | 184 | C |
| Motor Vehicles Excise Tax | 336 | -- | 336 | |
| Excise Tax on Rum Cover Over | 205 | 75 | 280 | D |
| Other General Fund Revenue | 321 | -- | 321 | |
| SUT Collections (excl. COFINA & FAM) | 1,551 | (70) | 1,482 | E |
| Act 154 Collections | 1,683 | -- | 1,683 | |
| PREPA Loan Interest Revenue Repayment | 15 | -- | 15 | |
| Gaming Fees | -- | 44 | 44 | F |
| Medical Marijuana | -- | 12 | 12 | G |
| Licenses & Other Fees | -- | 55 | 55 | H |
| Total General Fund Revenue | \$8,415 | \$114 | \$8,529 | |
| Total Independently Forecasted Component Units | 1,527 | (215) | 1,312 | I |
| Additional SUT (COFINA & FAM) | 900 | (900) | -- | I |
| Third party ASES receipts (rebates and municipal contributions) | 352 | -- | 352 | |
| Other Tax Revenues | 2,336 | (1,844) | 493 | I |
| Other Non-Tax Revenues | 539 | 349 | 888 | I |
| Total Other Funds Revenue | \$5,654 | (\$2,610) | \$3,045 | |
| Measures | \$321 | (\$321) | -- | J |
| Federal Transfers to Central Government | 4,258 | -- | 4,258 | |
| Federal Transfers - Medicaid | 2,619 | -- | 2,619 | |
| Federal Transfers to Independent Component Units | 169 | 2 | 171 | K |
| Federal / FEMA Disaster Relief Funding for Reconstruction | -- | 2,274 | 2,274 | L |
| Total Federal Funds | \$7,045 | \$2,277 | \$9,322 | |
| Elimination of Intergovernmental Revenues | -- | (78) | (78) | M |
| Total Consolidated Revenue (including measures) | \$21,436 | (\$619) | \$20,817 | |

Notes to Explain Adjustments in Appendix A:

- Note A: Calculated as \$19m from tax compliance improvements, plus \$223m in revenues from the limitation of certain tax deductions and exemptions (e.g. mortgage interest deduction, personal exemptions, elimination of cafeteria plans, and pension plan tax changes, etc.) and higher withholding at source collections, minus \$204m for Earned Income Tax Credit ("EITC"), minus \$257m in individual taxes reductions from reduction in marginal tax rates. Total individual and corporate income tax collections are net of an estimated \$456m in individual and corporate income tax refunds (same as FY2018). It is expected that the tax refunds and EITC will be reported on the forthcoming annual tax expenditure report ("TER").
- Note B: Calculated as \$14m from tax compliance improvements, plus higher withholding at source collections of \$217m, minus \$65m in reduced corporate taxes (from reduction in marginal tax rates).
- Note C: Higher tobacco product excise tax measure of \$49m related to legislation in 2017.
- Note D: Calculated as an additional \$47m by reducing Act 178-2010 incentive payments to rum producers, plus \$8m from reduced allocations to the Puerto Rico rum program, plus \$20m from the retention of rum cover over funds at the \$13.25 per proof gallon rate that will no longer be paid to rum producers.
- Note E: Calculated as \$25m from improved Sale and Use Tax ("SUT") tax compliance, plus \$4m SUT implementation adjustment, minus \$19m reduction in B2B tax collections from the reduction in B2B tax rate, minus \$79m reduction in SUT on prepared foods paid via electronic means.
- Note F: Related to Act 108 – 2017 to increase licenses and fees while improving enforcement of illegal machines.
- Note G: This is the sales and use tax collections related to the medical marijuana legislation (Act 42 – 2017). Further, the Treasury issued Administrative Determination 17-06 (the "AD 17-06") to provide guidelines on the related sales and use tax.
- Note H: 2017 legislation enabled fee increases for charges for services, fines; insurance; licenses; permits; rent; royalties; stamps; and other misc.

Note I: See Appendix B.

Note J: Revenue measures are removed here because they are distributed above. For clarity, revenue measures total \$114m in the general fund net of \$204m that is reduced because of the inclusion of the EITC cost. Note that the remaining \$3 million in measures (out of \$321m in total) is allocated to independently forecasted component units (see Note A and Note F in Appendix B). A break-down of the total measures is shown below:

| | |
|---------------|------------------------------------|
| \$24.5 | SUT compliance improvements |
| \$12.0 | SUT on Medical Marijuana |
| \$19.2 | Individual compliance improvements |
| \$14.4 | Corporate compliance improvements |
| \$49.5 | Cigarette excise tax |
| \$44.3 | Gaming Fees |
| \$55.2 | Licenses and other fees |
| \$3.4 | Airbnb excise tax |
| <u>\$98.4</u> | Tax reform |
| \$320.8 | Total Measures |

Note K: Captures federal funds at Agricultural Enterprises Development Administration (“ADEA”).

Note L: Includes estimated general government portion of total disaster aid as described in the new fiscal plan.

Note M: Intergovernmental eliminations relate to adjustments to Administration of Medical Services of Puerto Rico (“ASEM”) and Public Building Authority (“PBA”) in the independently forecast component unit section.

Appendix B: Other Funds Revenue

Note: Other Funds Revenue for the purpose of the table above is defined as the consolidation of Ingresos Propios, Other Income and Special Revenue Funds (i.e. all funds outside of the General Revenue Fund and Federal Funds).

| Fiscal Year Ending June 30 (\$ in Millions) | | | | |
|---|----------------|----------------|--------------------|---|
| Independently Forecasted Component Units | FY19 FP | Adj. | FY19 Budget | |
| State Insurance Funds Corporation (CFSE / SIFC) | 620 | -- | 620 | |
| Puerto Rico Tourism Company | 339 | (228) | 110 | A |
| Housing Financing Authority (HFA) | 97 | (63) | 34 | B |
| Agricultural Enterprises Development Administration (ADEA) | 107 | (2) | 105 | C |
| Administration of Medical Services of Puerto Rico (ASEM) | 30 | 66 | 96 | D |
| Public Building Authority (PBA) | 1 | 13 | 14 | E |
| Puerto Rico Ports Authority | 88 | -- | 88 | |
| Fiscal Agency and Financial Advisory Authority (AAFAF) | 0 | -- | 0 | |
| Cardiovascular Center of Puerto Rico and the Caribbean | 78 | -- | 78 | |
| Integrated Transportation Authority (PRITA) | 53 | -- | 53 | |
| PR Convention Center District Authority (PRCCDA) | 33 | 0 | 34 | F |
| Industrial Development Corporation (PRIDCO) | 65 | -- | 65 | |
| Net Income of Select Component Units | 15 | -- | 15 | |
| Total Independently Forecasted Component Units | 1,527 | (215) | 1,312 | |
| Additional SUT (COFINA & FAM) | | | | |
| Fondo de Administración Municipal (FAM) | 117 | (117) | -- | G |
| COFINA | 783 | (783) | -- | H |
| Total Additional SUT (COFINA & FAM) | 900 | (900) | -- | |
| Third Party ASES revenues | 352 | -- | 352 | |
| Other Tax Revenues | | | | |
| FEDE Portion of Corp Income Taxes and Non-Resident Withholdin | 53 | -- | 53 | |
| Excise Taxes on Off-Shore Shipments Rum | 190 | -- | 190 | |
| Cigarette Excise Taxes | 23 | (22) | 1 | I |
| Petroleum Products (Crudita) Excise Tax - AFI | 179 | (179) | -- | I |
| Petroleum Products (Crudita) Excise Tax - HTA | 291 | (111) | 179 | I |
| Gas Oil and Diesel Excise Taxes | 13 | (13) | -- | I |
| Gasoline Excise Tax Revenue | 139 | (139) | -- | I |
| Vehicle License Fees | 84 | (84) | -- | I |
| 9-1-1 Fund (Enterprise Fund) | 22 | -- | 22 | |
| Lottery Funds (Enterprise Fund) | 933 | (933) | -- | G |
| Unemployment Fund (Enterprise Fund) | 248 | (248) | -- | G |
| Other Special Revenue Fund Tax Revenues | 48 | -- | 48 | |
| CRIM Property Tax Inflows | 115 | (115) | -- | |
| Total Other Tax Revenues | 2,336 | (1,844) | 493 | |
| Other Non-Tax Revenues | | | | |
| Special Revenue Funds | 529 | -- | 529 | |
| Pension Pay go - municipal, PRASA, and other | -- | 349 | 349 | J |
| Pension Pay go Asset Sales | 10 | -- | 10 | |
| Total Other Non-Tax Revenues | 539 | 349 | 888 | |
| Total Other Funds | 5,654 | (2,610) | 3,045 | |

Notes to Explain Adjustments in Appendix B:

- Note A: Calculation includes additional \$3m in revenue from higher Airbnb tax collections measures, minus \$201m in distributions to entities outside of the tourism company (including Convention Center (\$4m), hotels (\$118m), University of Puerto Rico ("UPR" - \$59m), the general fund ("GF" (\$20m) which has already been captured in the general fund section)), minus \$30m in convention center debt reserve (which are used pursuant to the fiscal plan). Notes that the tourism company has their own treasury and these revenues do not flow through the Treasury Single Account ("TSA") at Hacienda.
- Note B: Revenues are reduced by the estimated balance sheet related receipts; the estimated balance sheet related receipts include principal repayments of construction & mortgage loans of \$45m and proceeds from investment redemption of \$18m. These are not income statement related items.
- Note C: Reduced by Women, Infants, and Children ("WIC" – which are Federal Funds) because these funds are captured in the Federal Funds revenue section.
- Note D: Includes gross-up of income for services provided to other governmental entities (excludes direct GF appropriations).
- Note E: Includes rent for services provided to other governmental entities (excludes GF appropriations).
- Note F: Includes \$171k in revenue related to the Airbnb measure.
- Note G: These revenues are not available for general budgeting purposes. Fondo de Administración Municipal ("FAM") flows directly to the municipalities.
- Note H: Pledged Sales Tax Based Amounts ("PSTBA") flow directly to the Corporación del Fondo de Interés Apremiante ("COFINA") trustee.
- Note I: These revenues are available for use pursuant to the fiscal plan.
- Note J: These are payments from municipalities, Puerto Rico Aqueducts and Sewers Authority ("PRASA"), and certain other public corporations outside of the Commonwealth that make Pension PayGo payments for their Employees Retirement System ("ERS") retirees.

Appendix C: Federal Funds Revenue

| Fiscal Year Ending June 30 (\$ in Millions) | | | |
|---|--------------|--------------|--------------|
| Federal Transfers for Commonwealth Entities | FY19 FP | Adj. | FY19 Budget |
| Administration of Socioeconomic Development of the Family (ADSF) | 2,077 | -- | 2,077 |
| Department of Education | 936 | -- | 936 |
| Health Department | 382 | -- | 382 |
| Public Housing Administration (PHA) | 258 | -- | 258 |
| Administration for the Care and Integral Development of Children (ACUDEN) | 111 | -- | 111 |
| Department of Housing | 69 | -- | 69 |
| Vocational Rehabilitation Administration | 66 | -- | 66 |
| Department of Economic Development and Trade (DEDC) | 61 | -- | 61 |
| Administration of Families and Children (ADFAN) | 60 | -- | 60 |
| Mental Health and Addiction Services Administration (ASSMCA) | 36 | -- | 36 |
| General Court of Justice | 35 | -- | 35 |
| National Guard Trust | 26 | -- | 26 |
| Department of Labor And Human Resources | 26 | -- | 26 |
| Office of The Advocate for the Elderly | 19 | -- | 19 |
| Administration for Child Support | 18 | -- | 18 |
| Secretariat of the Department of the Family | 16 | -- | 16 |
| Transit Safety Authority (TSA) | 12 | -- | 12 |
| Natural Resources Management | 11 | -- | 11 |
| Environmental Quality Board (EQB) | 9 | -- | 9 |
| Emergency and Disaster Management Agency | 5 | -- | 5 |
| State Office for Public Energy Policy | 4 | -- | 4 |
| Puerto Rico Police Department | 3 | -- | 3 |
| Office of the Women's Advocate | 3 | -- | 3 |
| Department of Planning | 3 | -- | 3 |
| Correction Administration | 2 | -- | 2 |
| Office of the Governor | 2 | -- | 2 |
| Defendant of Persons with Disabilities of the Commonwealth of PR | 1 | -- | 1 |
| Department of Agriculture | 1 | -- | 1 |
| Fire Department of Puerto Rico | 1 | -- | 1 |
| Public Service Commission | 1 | -- | 1 |
| Institute of Puerto Rican Culture | 1 | -- | 1 |
| State Office of Historical Conservation | 1 | -- | 1 |
| Office of the Commissioner of Municipal Affairs | 1 | -- | 1 |
| General Court of Justice | 1 | -- | 1 |
| Transportation and Public Works | 0 | -- | 0 |
| Institute of Statistics | 0 | -- | 0 |
| Total Federal Transfers for Central Government | 4,258 | -- | 4,258 |
| Federal Transfers - Medicaid (ASES) | 2,619 | -- | 2,619 |
| Federal Transfers to Independent Component Units | | | |
| Housing Finance Authority (HFA) | 159 | -- | 159 |
| Agricultural Enterprises Development Administration (ADEA) | - | 2 | 2 |
| Transportation Authority (PRITA) | 10 | -- | 10 |
| Total Federal Transfers to Independent Component Units | 169 | 2 | 171 |
| Federal / FEMA Disaster Relief Funding for Reconstruction | - | 2,274 | 2,274 |
| Total Consolidated Federal Funds | 7,045 | 2,277 | 9,322 |

Notes to Explain Adjustments in Appendix C:

Note A: Reduced by WIC (Federal Funds) because these funds are captured in the Federal Funds revenue section.

Note B: Includes estimated general government portion of total disaster aid as described in the new fiscal plan.